

# Revenue Review

Tennessee Department of Revenue

www.Tennessee.gov/revenue

REVENUE ...  
*Working For You*

April 2007

## Contents:

**Sales Tax Holidays.....1**

**Vehicle Services Makes Significant Strides.....2**

**Recent Court Development.....3**

**File Individual Income Tax Online This Year.....3**

**Speakers Bureau.....3**

**Note from Commissioner Reagan Farr.....4**

**Upcoming Workshops.....4**

**Contact Us.....4**

## Revenue Extends April 15 Filing Deadline to April 17

Tennessee taxpayers will have until Tuesday, April 17, 2007, to file state taxes due April 15. The revenue department's decision to extend the filing time follows an announcement earlier this year by the Internal Revenue Service that it was changing its federal income tax deadline nationwide to April 17 for this year only.

The April 17, 2007, deadline will apply to the following: **Hall income tax and franchise and excise taxes.**

"We will follow the IRS's lead in regard to the April 17 filing deadline. As always, we encourage taxpayers to utilize our online tax filing applications," said Revenue Commissioner Reagan Farr.

All electronic filing options may be accessed at [www.tennessee.gov/revenue](http://www.tennessee.gov/revenue).

## Special Sales Tax Holiday Coming in April; Annual Holiday Still in August



In August 2006, Tennessee held its first annual sales tax holiday, generating more than \$14.8 million dollars in tax savings for consumers across Tennessee. For 2007, citizens across the state will be able to make tax-free purchases during two periods: during a **special** sales tax holiday April 27-29, 2007, and during the annual sales tax holiday Aug. 3-5, 2007.

Public Chapter 398 in the Public Acts for 2005 created Tenn. Code Ann. Section 67-6-393, giving rise to our annual sales tax holiday. In last year's legislative session, Public Chapter 1019 created a special **one-time only** period for April 27-29, 2007. These laws once again will give shoppers the opportunity to

purchase certain school supplies, computers and clothing tax-free for these periods.

Items exempt from tax during both three-day holidays include the following:

**School supplies (\$100 or less per item)** are defined as items used by a student in a course of study. Specifically excluded are items such as art supplies and instructional material, including reference books and school computer supplies (compact discs, printers, and printer ink).

**Clothing (\$100 or less per item)** is defined as human wearing apparel for general use. It excludes accessories such as jewelry or bags, protective equipment, and sports and recreational equipment such as baseball gloves.

**Computers (priced at \$1,500 or less)** with preloaded software and components purchased with the computer are also exempt. Computers and their components must be purchased as a system.

Individual computer parts and accessories and software that is not preloaded on the computer do not qualify for the exemption. PDAs and MP3 players also do not qualify for exemption.

**Any person** making purchases of these qualifying items during the period may make these purchases tax-free. You are not required to be a student or the parent of a student. So for anyone wanting to buy qualified clothing, school supplies, or computers, this can equal real savings. Please keep in mind that exemptions do not apply to items used in a **trade or business**, or to **items that are rented**.

Layaway sales also qualify for the exemption if final payment is made and the property is given to the purchaser during the holiday **or** if the layaway order is made during the holiday even if delivery is made after the holiday ends.

**Special Note:** Retailers making exempt sales tax holiday sales **must** report these transactions on page 2 of their Sales Tax Form SLS 450. These figures are reported on **Schedule A, Line J** of this form. Retailers **may not** omit sales from their gross sales reported on line 1 and must instead use the exemption method described above. This is necessary so that local governments are properly reimbursed for potential losses in local tax revenue, as prescribed by Tenn. Code Ann. Section 67-6-710(h).

For more information, please visit our Web site, [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue). You also may send an e-mail to [salestax.holiday@state.tn.us](mailto:salestax.holiday@state.tn.us) or call us toll-free at (800) 342-1003 from 8 a.m. to 5 p.m. CST, Monday through Friday. Local Nashville callers may dial 253-0600.

## Did You Know...

You can receive notices and other publications instantly by signing up on one of the department's ListServes? Visit our Web site to subscribe to Revenue-News or lists dedicated to county clerks and city officials.

## Contact Us:

Tennessee Department of Revenue  
Attn: Taxpayer and Vehicle Services  
500 Deaderick Street  
Nashville, TN 37242  
(615) 253-0600  
Statewide toll-free:  
(800) 342-1003

## Vehicle Services Makes Significant Strides – Enhances Customer Service and Improves Workflow Processes

The Vehicle Services team has been working hard since its move to Revenue in July 2006. Vehicle Services reached a milestone in February. The motor vehicle title backlog was approximately 60,000 as of October 2006. In February, the Vehicle Services team was able to bring the backlog to ZERO. Although it is an ongoing process to keep up with the large number of incoming title applications, eliminating the backlog was a significant achievement for Vehicle Services' staff who worked diligently over the last several months to accomplish this feat.

### Updates from Vehicle Services

For the fiscal year ending June 2006, Revenue issued 2.2 million titles and handled 6.3 million registrations. The one word to keep in mind when discussing Title & Registration activities is VOLUME. Vehicle Services handles large quantities of documents and phone calls, and much like Taxpayer Services, customer service is its primary focus.

### With the transition, Revenue leadership immediately identified two key areas that begged for rapid improvement:

1. Reduce the amount of time it took to reach someone in the Title & Registration call center, and
2. Reduce the huge backlog of title applications.

Accomplishments, as of the publication date of this newsletter, include:

- **Dramatically reducing the amount of time it takes to get through to staff in the Title & Registration call center.** Revenue moved the call center staff into the main office in the Andrew Jackson Building in Nashville to take advantage of a technologically advanced call-center system. **While the Title & Registration call center previously dropped more than 50% of the calls coming in, it now handles between 90% and 95%, some days even higher.** Departmental management believes the rate of abandoned calls—those who call in but hang up before reaching someone—is still too high. And, Vehicle Services continues to make improvements in this area.
- **Improving workflow.** When the agency started looking for ways to reduce the backlog of applications, it took a close look at the workflow process—and saw some opportunities to make improvements that would result in a more efficient process. Changing the workflow was a significant undertaking.

The department is now scanning on the front end; as soon as items arrive in the mailroom, they are scanned, indexed and placed into work queues. Everyone with the ability to retrieve documents can now pull up applications that have been submitted by name. All staff now work from a queue, and for the first time, staff members know exactly how many applications they have to work.

Once Revenue had everything placed in a work queue, the title backlog was approximately 60,000 as of October 2006. In February, the Vehicle Services team was able to bring the backlog to ZERO. Although it is an ongoing process to keep up with the large number of incoming title applications, eliminating the backlog was a significant milestone for our Vehicle Services Staff

who worked diligently over the last several months to accomplish this feat.

### Background

As of July 1, 2006, Revenue assumed responsibility for all aspects involved with the issuance of motor vehicle registrations, titles and activities related to passenger and commercial motor vehicles, motorcycles, ATVs, trailers and mobile homes. Revenue has oversight for the 95 county clerks who serve as the state's local agents.

Revenue assumed responsibility for these vehicle services functions previously handled in the Department of Safety's Title & Registration Division. The majority of Title & Registration employees became part of a new division at Revenue: Taxpayer & Vehicle Services. While formally operating as one division, the division operates functionally as two separate sections: Taxpayer Services and Vehicle Services.

Vehicle Services' responsibilities include working with Tennessee's 95 county clerks to handle the issuance of registrations and titles for passenger and commercial vehicles, issuing more than 200 types of vehicle license plates, as well as distributing disabled parking placards and temporary permits. The division's motor carrier section serves as a one-stop shop for commercial vehicles, providing base-state vehicle registration and titling and international fuel tax reporting.

## Frequently Asked Individual Income Tax Question

### Q: When does the department recommend that a practitioner file a zero income tax return on behalf of a client?

The department is often asked about the data we get from the IRS and its use in the state's income tax match audit initiative. The match program uses electronic data received from the IRS on Tennessee taxpayers. The data includes 1040 records and Information Return records. The Information Return file contains data filed by the payer of income, i.e., 1099s and K-1s.

Although filing an income tax return is not required if no tax is due, some practitioners and taxpayers may want to do so in order to prevent matching program inquiries from the department.

### Filing a zero return is not recommended when:

1. The taxpayer's total interest and dividend income from all sources, including pass-through income, is less than the applicable exemption; or
2. Non-taxable income is paid by a financial institution or other entity that is subject to electronic filing of Information Returns by the IRS.

### Filing a zero return in other instances may prevent matching program inquiries and save time later. Filing a zero return can be helpful when:

1. The taxpayer is the beneficiary of a Tennessee trust that is filing and paying the tax. (Report the trust income as non-taxable and include the federal employer identification number (FEIN) of the trust.);
2. The taxpayer reports partnership or sub-S pass-through interest and/or dividends on their 1040 schedule B. (Report this income as non-taxable and provide the FEIN.); or
3. Non-taxable income is paid by an entity not subject to electronic filing of Information Returns. An example of such income would be interest on promissory notes.

## Recent Court Development

Tennessee recently won a case involving the surcharge imposed on self-insured employers by Tenn. Code Ann. Section 56-4-207(a) on workers' compensation premiums. The case is *Saturn Corporation v. Johnson*, No. M2005-02579-COA-R3-CV, slip op. (Tenn. Court App., Jan. 31, 2007).

The Saturn Corporation is a self insurer within the meaning of Tenn. Code Ann. Section 56-4-207 with regard to workers' compensation claims. As such, it is not insured by a licensed insurance company; but instead, Saturn directly provides workers' compensation benefits to its employees. The benefits are equivalent to those which would be provided by insurance companies.

As a self insurer, Saturn is taxed the same as those insurance companies that provide workers' compensation insurance in Tennessee. Saturn pays a 4% on the premium it would otherwise be paying if it carried workers' compensation insurance, plus Saturn pays a surcharge of four-tenths of 1% on the deemed premium pursuant to Tenn. Code Ann. Section 56-4-207.

Saturn asserted that the surcharge of four tenths of 1% was a "premium tax" for purpose of the franchise and excise tax credit provided pursuant to Tenn. Code Ann. Section 56-4-217(a). Prior to 2002, self insurers were afforded this credit against their franchise and excise tax liability for "premium taxes" collected under Tenn. Code Ann. Sections 56-4-201 through 56-4-214.

The department argued that the surcharge was not a "premium tax," but was instead simply a "fee" that may not be applied as a credit towards Saturn's franchise and excise tax liability. The department reasoned that the surcharge was a "fee" because Tenn. Code Ann. Section 56-4-207 provides that it is earmarked to cover the costs associated with the administration of the Tennessee Occupational Safety and Health Act (TOSHA) and does not go into the general treasury.

The Tennessee Court of Appeals agreed with the department's reasoning. Specifically, the Court agreed that the surcharge is not a tax because it was not designated to be paid into the general treasury and disbursed for the general welfare. Rather, the purpose of the surcharge is to defray the cost of providing a service or benefit to the party paying the surcharge. In this case, the Court indicated that the surcharge is designed to offset the costs associated with administering TOSHA, and TOSHA provides a great benefit to insurance companies and self-insurers, such as Saturn. Thus, the Court concluded that surcharge is a "fee" rather than a "premium tax." As a result, Saturn was not entitled to claim a credit against their franchise and excise tax liability for its payment of the surcharge.

## Online Sales Tax Filing Statistics

Month	Number of Returns	Total of Amount Collected
November 2006	21,562	\$308,115,877
December 2006	21,622	\$300,114,634
January 2007	24,952	\$361,628,998

## File Individual Income Tax Online This Year

Did you know ...  
Tennessee  
has a tax  
on Bonds  
and Dividends  
on Stock?



**Due April 17**

Tax season is in full swing, and the April 17 deadline is fast approaching. The Tennessee Department of Revenue reminds individual income tax filers that online filing of this tax, commonly known as the Hall income tax, is available on its Web site, [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue).

Like Revenue's other electronic applications, this

option is a convenient, worry-free tax filing service that performs some or all calculations for filers.

The Department of Revenue reminds all individual income tax filers that they still must file a federal extension or an extension with the department in order to obtain an extension that will be accepted by the department.

## Speakers Bureau

The Department of Revenue operates a speakers bureau. Professionals from across the state are available at no charge for professional groups, civic clubs, special events and academic organizations in Tennessee.

Call (615) 532-4975, e-mail [dayna.patzner@state.tn.us](mailto:dayna.patzner@state.tn.us), or write to Dayna Patzner, Tennessee Department of Revenue, 500 Deaderick St., Third Floor, Nashville, TN 37242, to request a speaker. Requesting agencies/organizations should contact the department at least two weeks in advance and provide the following information.

- Date and time speaker needed
- Name of group requesting speaker
- Location
- Topic
- Desired length of presentation
- Number of people expected to attend presentation
- Contact name, address, phone number and e-mail address

More information is available online at [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue). Select "Hot Topics," and then choose "Seminars, New Business Workshops and Speakers."

## January Collections

January 2007 collections of the Tennessee Department of Revenue were \$1,010,674,054, an increase of \$56,342,403 or 5.9% over January 2006 collections. Sales and use tax collections were \$702,671,100, up \$29,865,004 or 4.4% over January 2006 collections. Consumer use tax collections were down 58.9% from collections in January 2006. Franchise and excise tax collections were \$131,419,148, up \$12,419,384 or 10.4% when compared to January 2006 collections.

## Bredesen Appoints Reagan Farr Commissioner



Governor Phil Bredesen appointed Reagan Farr as commissioner of the Department of Revenue. He took his oath of office during Bredesen's second inauguration on Jan. 20.

Farr has served as deputy commissioner and as an assistant commissioner with the Department of Revenue since 2003. As the agency's primary legislative liaison and tax policy coordinator, he worked with the General Assembly to pass four consecutive tax packages that introduced no new taxes in the state. Before joining state government, Farr worked in the state and local tax department of the Ernst & Young accounting firm. Farr is a Louisiana State University graduate and holds his law degree from the University of North Carolina in Chapel Hill.

"I want to thank Governor Bredesen for this opportunity," Farr said. "I want to continue to work with him to further increase efficiency at the department and improve taxpayer education among Tennesseans."

## A Note From Commissioner Reagan Farr

The Department of Revenue is a complex organization that administers 29 tax types and processes more than a million vehicle titles annually. Despite the multitude of functions performed by the department, our success or failure is ultimately determined by the level of service that we provide to you, our customer. I encourage you to participate in our ongoing efforts to enhance customer service by taking the time to provide feedback about your interactions with the department – whether positive or negative. Also, please share any suggestions or comments that you have regarding areas for improvement. Finally, I encourage you to visit our Web site often to learn about initiatives, breaking tax news, and new electronic filing options.

I look forward to working together as we continue the department's efforts to provide the level of customer service that you expect and deserve.

## Save the Date: New Business Workshops (NBW) Across the State

### May

**May 9** – NBW, Chattanooga, 8:30 a.m. – 1:15 p.m.

**May 10** – NBW, Johnson City, 8:30 a.m. – 11:45 a.m.

**May 10** – NBW, Memphis, 9 a.m. – Noon

**May 16** – NBW, Knoxville, 8:30 a.m. – 12:30 p.m.

**May 22** – NBW, Nashville, 9 a.m. – 12:45 p.m.

### July

**July 11** – NBW, Chattanooga, 8:30 a.m. – 1:15 p.m.

**July 12** – NBW, Memphis, 9 a.m. – Noon

**July 12** – NBW, Johnson City, 8:30 a.m. – 11:45 a.m.

**July 18** – NBW, Knoxville, 8:30 a.m. – 12:30 p.m.

**July 24** – NBW, Nashville, 9 a.m. – 12:45 p.m.

## Contact Us

- Taxpayer Services hot line: Statewide toll-free (800) 342-1003; Nashville-area and out-of-state callers should call (615) 253-0600.
- Vehicle Services hot line: Statewide toll-free (888) 871-3171; Nashville-area and out-of-state callers should call (615) 741-3101.
- Online tax help by e-mailing [TN.Revenue@state.tn.us](mailto:TN.Revenue@state.tn.us).
- Streamlined Sales Tax hot line: In Tennessee, call (877) 250-2299. In Nashville and outside Tennessee, call (615) 253-0752.
- Streamlined Sales Tax online assistance by e-mailing [Streamlined.Salestax.QandA@state.tn.us](mailto:Streamlined.Salestax.QandA@state.tn.us).
- Tax practitioner hot line: Statewide toll-free (800) 387-8395; Nashville-area and out-of-state callers should call (615) 253-0700.
- Local government hot line: (866) 562-2549.
- E-mail updates: Visit our Web site, [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue), to subscribe.
- Electronic commerce hot line: Statewide toll-free: (866) 368-6374. Nashville-area and out-of-state callers should dial (615) 253-0704.
- Speakers bureau: (615) 532-4975.
- Tax fraud hot line: To report tax fraud, call (800) FRAUDTX (372-8389).



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